

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549



ANNUAL AUDITED REPORT  
FORM X-17A-5  
PART III

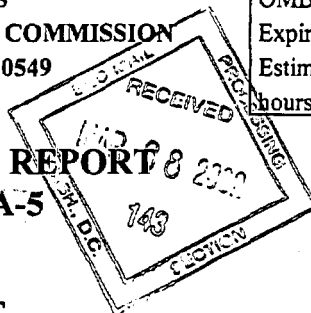
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Information Required of Brokers and Dealers Pursuant to Section 17 of the  
Securities Exchange Act of 1934 and Rule 17a-5 Thereunder

AM 3/14/2002

OMB APPROVAL
OMB Number: 3235-0123
Expires: September 30, 1998
Estimated average burden hours per response. . . . 12.00

SEC FILE NUMBER
8-53063



REPORT FOR THE PERIOD BEGINNING November 28, 2000 AND ENDING December 31, 2001  
MM/DD/YY MM/DD/YY

**A. REGISTRANT IDENTIFICATION**

NAME OF BROKER-DEALER:

HFI Securities, Inc.

OFFICIAL USE ONLY
FIRM ID. NO.

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

8000 Maryland Avenue

(No. and Street)

St. Louis

(City)

Missouri

(State)

63105

(Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT

James A. Winkelmann

314-236-2283

(Area Code - Telephone No.)

**B. ACCOUNTANT IDENTIFICATION**

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report\*

Rubin, Brown, Gornstein & Co. LLP

(Name - if individual, state last, first, middle name)

230 S. Bemiston

(Address)

Clayton

(City)

Missouri

(State)

63105

(Zip Code)

CHECK ONE:

☒

Certified Public Accountant

☐

Public Accountant

☐

Accountant not resident in United States or any of its possessions.

FOR OFFICIAL USE ONLY

\* Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See section 240.17a-5(e)(2).

SEC 1410 (3-91)

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### OATH OR AFFIRMATION

I, James A. Winkelmann, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of HFI Securities, Inc., as of December 31, 2001, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:

PAMELA J. LEWELLEN  
Notary Public - Notary Seal  
STATE OF MISSOURI  
St. Louis County  
My Commission Expires May 8, 2005

*Pamela J. Lewellen*  
Notary Public

*[Signature]*  
Signature  
*President*  
Title

This report\*\* contains (check all applicable boxes):

- ☒ (a) Facing page.
- ☒ (b) Statement of Financial Condition.
- ☒ (c) Statement of Income (Loss).
- ☒ (d) Statement of Cash Flows.
- ☒ (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietor's Capital.
- ☐ (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- ☒ (g) Computation of Net Capital.
- ☐ (h) Computation for Determination of Reserve requirements Pursuant to Rule 15c3-3.
- ☒ (i) Information Relating to the Possession or control Requirements Under Rule 15c3-3.
- ☐ (j) A Reconciliation, including appropriate explanation, of the Computation of Net Capital Under Rule 15c3-1 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
- ☐ (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
- ☒ (l) An Oath or Affirmation.
- ☐ (m) A copy of the SIPC Supplemental Report.
- ☐ (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.
- ☒ (o) Independent Auditor's Report on Internal Accounting Control.

\*\* For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).

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***HFI SECURITIES, INC.***

***FINANCIAL STATEMENTS***

***DECEMBER 31, 2001***

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## Independent Auditors' Report

Board of Directors  
HFI Securities, Inc.  
St. Louis, Missouri

We have audited the accompanying statement of financial condition of HFI Securities, Inc. as of December 31, 2001, and the related statements of income, stockholder's equity and cash flows for the thirteen months then ended that you are filing pursuant to Rule 17a-5 under the Securities Exchange Act of 1934. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of HFI Securities, Inc. as of December 31, 2001, and the results of its operations and its cash flows for the thirteen months then ended, in conformity with accounting principles generally accepted in the United States of America.

*Rubin, Brown, Gornstein & Co. LLP*

February 8, 2002

Rubin, Brown, Gornstein & Co. LLP	230 South Barniston Avenue
Certified Public Accountants / Business Consultants	St. Louis, MO 63105

# HFI SECURITIES, INC.

## STATEMENT OF FINANCIAL CONDITION December 31, 2001

### Assets

Cash and cash equivalents	\$ 24,817
Investments	10,018
Receivable from clearing organization	32,102
Prepaid expenses	<u>2,130</u>
	<u>\$ 69,067</u>

### Liabilities And Stockholder's Equity

#### Liabilities

Accounts payable and accrued expenses	<u>\$ 35,517</u>
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#### Stockholder's Equity

Common Stock:	
Authorized 30,000 shares of no par value; issued and outstanding 100 shares	32,078
Retained earnings	<u>1,472</u>
Total Stockholder's Equity	<u>33,550</u>
	<u>\$ 69,067</u>

## HFI SECURITIES, INC.

### STATEMENT OF STOCKHOLDER'S EQUITY For The Thirteen Months Ended December 31, 2001

	Common Stock		Retained	Total
	Shares	Amount	Earnings	Stockholder's Equity
Balance - November 28, 2000	—	\$ —	\$ —	\$ —
Issuance Of Common Stock	100	32,078	—	32,078
Net Income	—	—	1,472	1,472
Balance - December 31, 2001	100	\$ 32,078	\$ 1,472	\$ 33,550

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# HFI SECURITIES, INC.

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## STATEMENT OF INCOME

For The Thirteen Months Ended December 31, 2001

<b>Revenues</b>	
Commissions	\$ 241,345
Interest and dividends	66
<b>Total Revenues</b>	<u>241,411</u>
<b>Expenses</b>	
Commissions	73,275
Management fees	138,371
Exchange and clearance fees	1,047
Other expenses	18,254
<b>Total Expenses</b>	<u>230,947</u>
<b>Income From Operations</b>	10,464
<b>Unrealized Loss On Investments</b>	<u>(6,906)</u>
<b>Income Before Provision For Income Taxes</b>	3,558
<b>Provision For Income Taxes</b>	<u>2,086</u>
<b>Net Income</b>	<u>\$ 1,472</u>



# HFI SECURITIES, INC.

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## STATEMENT OF CASH FLOWS For The Thirteen Months Ended December 31, 2001

### Cash Flows From Operating Activities

Net income	\$ 1,472
Adjustments to reconcile net income to net cash provided by operating activities:	
Unrealized loss on investments	6,906
Change in assets and liabilities:	
Increase in accounts receivable	(32,102)
Increase in prepaid expenses	(2,130)
Increase in accounts payable and accrued expenses	35,517

### Net Cash Provided By Operating Activities

9,663

### Cash Flows Used In Investing Activities

Purchase of investments	<u>(16,924)</u>
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### Cash Flows Provided By Financing Activities

Issuance of common stock	<u>32,078</u>
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### Net Increase In Cash And Cash Equivalents

24,817

### Cash And Cash Equivalents - November 28, 2000

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### Cash And Cash Equivalents - December 31, 2001

\$ 24,817

# **HFI SECURITIES, INC.**

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## **NOTES TO FINANCIAL STATEMENTS December 31, 2001**

### **1. Summary Of Significant Accounting Policies**

#### **Estimates And Assumptions**

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses.

#### **Securities Transactions**

Securities transactions of the Company are recorded on the trade date basis.

Marketable securities are valued at market value. The resulting difference between cost and market is included in income.

#### **Cash And Cash Equivalents**

The Company considers all temporary cash investments as cash equivalents. These temporary cash investments are securities held for cash management purposes, having original maturities of three months or less.

#### **Income Taxes**

The Company is included in the consolidated federal income tax return of its parent company. Federal income taxes are calculated as if the Company files on a separate return basis.

### **2. Operations**

HFI Securities, Inc. (the Company) was incorporated November 28, 2000 with its principal activity being a broker of stocks, bonds, mutual funds and other securities. For clarity of presentation, the accompanying financial statements are presented as if the period began on December 1, 2000. The Company is a wholly owned subsidiary of Huntleigh Financial Services.

## **HFI SECURITIES, INC.**

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### **Notes To Financial Statements (Continued)**

The Company is subject to the Securities and Exchange Commission Uniform Net Capital Rule (SEC Rule 15a3-1), which requires the maintenance of minimum net capital of \$5,000 and requires that the ratio of aggregate indebtedness to net capital, both as defined, shall not exceed 15 to 1. At December 31, 2001, the Company was in compliance with both of the above-stated net capital rules.

The Company has an agreement with a national broker-dealer to clear certain of its proprietary and customer transactions on a fully disclosed basis.

### **3. Income Taxes**

The parent company makes all necessary income tax payments for the Company. The current income tax provision is the amount assessed by the parent company for the Company's pro rata share of current federal and state income taxes at statutory rates, calculated as if the companies filed on a separate return basis.

### **4. Financial Instruments With Off-Balance-Sheet Risk**

In the normal course of business, the Company's customer and clearing agent clearance activities involve the execution and settlement of various customer security transactions. These activities may expose the Company to off-balance-sheet risk in the event the customer or other broker is unable to fulfill its contracted obligations and the Company has to purchase or sell the financial instrument underlying the contract at a loss.

### **5. Related Party Transactions**

The Company is operating under a management agreement with Huntleigh Financial Services, its parent company. The management agreement provides for a management fee based on a percentage of revenue. The percentage fluctuates monthly and is determined by management. This fee amounted to \$138,371, of which \$26,932 is accrued and unpaid at year end.



**Independent Auditors' Report On Supplementary Information  
Required By Rule 17a-5 Of The Securities  
And Exchange Commission**

Board of Directors  
HFI Securities, Inc.  
St. Louis, Missouri

We have audited the accompanying financial statements of HFI Securities, Inc. as of and for the thirteen months ended December 31, 2001, and have issued our report thereon dated February 8, 2002. Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The information contained in the schedules presented on pages 11 through 13 is presented for purposes of additional analysis and is not a required part of the basic financial statements, but is supplementary information required by rule 17a-5 of the Securities Exchange Act of 1934. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Rubin, Brown, Gornstein & Co. LLP*

February 8, 2002

Rubin, Brown, Gornstein & Co. LLP	230 South Bemiston Avenue
Certified Public Accountants / Business Consultants	St. Louis, MO 63105

## **HFI SECURITIES, INC.**

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### **COMPUTATION OF NET CAPITAL UNDER RULE 15c3-1 OF THE SECURITIES AND EXCHANGE COMMISSION December 31, 2001**

<b>Net Capital</b>	
Total stockholder's equity	<u>\$ 33,550</u>
Deductions and/or charges:	
Non-allowable assets:	
Prepaid expenses	<u>2,130</u>
Haircuts on securities:	
Other securities	<u>1,504</u>
<b>Net Capital</b>	<u><u>\$ 29,916</u></u>
<b>Aggregate Indebtedness</b>	<u><u>\$ 35,517</u></u>
<b>Computation Of Basic Net Capital Requirement</b>	
Minimum net capital required	<u><u>\$ 2,368</u></u>
Minimum dollar net capital requirement	<u><u>\$ 5,000</u></u>
Net capital requirement (greater of above)	<u><u>\$ 5,000</u></u>
Excess net capital	<u><u>\$ 24,916</u></u>
Excess net capital at 1000%	<u><u>\$ 26,364</u></u>
Ratio of aggregate indebtedness to net capital	<u><u>1.19 to 1</u></u>

## HFI SECURITIES, INC.

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### RECONCILIATION WITH COMPANY'S COMPUTATION OF NET CAPITAL (INCLUDED IN PART II OF FORM X-17a-5) December 31, 2001

Net Capital as reported in Company's Part II (unaudited) Focus Report	\$ 32,002
Increase in income taxes payable	<u>2,086</u>
Net Capital, per audited statement	<u><u>\$ 29,916</u></u>

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**HFI SECURITIES, INC.**

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**EXEMPTIVE PROVISION UNDER RULE 15c3-3  
December 31, 2001**

An exemption from Rule 15c3-3 is claimed as the broker-dealer does not hold customer funds or securities. All accounts are on a fully disclosed basis.

Therefore the schedules of "Computation For Determination Of Reserve Requirements Under Rule 15c3-3" and "Information For Possession Or Control Requirement Under Rule 15c3-3" are inapplicable.



## **Independent Auditors' Report On Internal Accounting Control**

Board of Directors  
HFI Securities, Inc.  
St. Louis, Missouri

In planning and performing our audit of the financial statements of HFI Securities, Inc. for the thirteen months ended December 31, 2001, we considered its internal control, including control activities for safeguarding securities, in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control.

Also, as required by rule 17a-5(g)(1) of the Securities and Exchange Commission (SEC), we have made a study of the practices and procedures followed by the Company including tests of such practices and procedures that we considered relevant to the objectives stated in Rule 17a-5(g) in making the periodic computations of aggregate indebtedness (or aggregate debits) and net capital under Rule 17a-3(a)(11) and for determining compliance with the exemptive provisions of Rule 15c3-3. Because the Company does not carry securities accounts for customers or perform custodial functions relating to customer securities, we did not review the practices and procedures followed by the Company in any of the following:

- 1) Making quarterly securities examinations, counts, verification, and comparisons
- 2) Recordation of differences required by Rule 17a-13
- 3) Complying with the requirements for prompt payment for securities under Section 8 of Federal Reserve Regulation T of the Board of Governors of the Federal Reserve System

Rubin, Brown, Gomstein & Co. LLP	230 South Bemiston Avenue
Certified Public Accountants / Business Consultants	St. Louis, MO 63105



The management of the Company is responsible for establishing and maintaining internal control and the practices and procedures referred to in the preceding paragraph. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of controls and of the practices and procedures referred to in the preceding paragraph and to assess whether those practices and procedures can be expected to achieve the SEC's above-mentioned objectives. Two of the objectives of internal control and the practices and procedures are to provide management with reasonable, but not absolute, assurance that assets for which the Company has responsibility are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit preparation of financial statements in conformity with generally accepted accounting principles. Rule 17a-5(g) lists additional objectives of the practices and procedures listed in the preceding paragraph.

Because of inherent limitations in internal control or the practices and procedures referred to above, error or fraud may occur and not be detected. Also, projection of any evaluation of them to future periods is subject to the risk that they may become inadequate because of changes in conditions or that the effectiveness of their design and operation may deteriorate.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of the specific internal control components does not reduce to a relatively low level the risk that error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we noted no matters involving internal control, including control activities for safeguarding securities, that we consider to be material weaknesses as defined above.

We understand that practices and procedures that accomplish the objectives referred to in the second paragraph of this report are considered by the SEC to be adequate for its purposes in accordance with the Securities Exchange Act of 1934 and related regulations, and that practices and procedures that do not accomplish such objectives in all material respects indicate a material inadequacy for such purposes. Based on this understanding and on our study, we believe that the Company's practices and procedures were adequate at December 31, 2001 to meet the SEC's objectives.

Board of Directors  
HFI Securities, Inc.

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This report is intended solely for the use of the Board of Directors, management, the Securities and Exchange Commission, and other regulatory agencies which rely on Rule 17a-5(g) under the Securities Exchange Act of 1934 in their regulation of registered brokers and dealers and is not intended to be and should not be used by anyone other than these specified parties.

*Rubin, Brown, Gornstein & Co. LLP*

February 8, 2002